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WILLIAMS STARTS PROBE OF SECURITIES INDUSTRY

WASHINGTON, January 25 - U.S. Senator Harrison A. Williams, Jr. (D-NJ) announced today the first step of what he said will be "an indepth study" of the securities industry.

Williams, who is chairman of the Senate Securities Subcommittee, said the opening round of the study involves questionnaires sent to leading brokerage firms. The questionnaires, which are being mailed this week, seek information regarding "free credit balances" and "hypothecation" of customers' securities.

"It is my hope that the Securities Subcommittee will conduct a two-year indepth study involving all phases of the securities industry," Williams declared.

"This industry," he added, "indirectly affects the lives of every American through the dominant role it plays in shaping our economy. In addition, what happens within the industry has a direct and dramatic effect on millions of Americans who invest money, sometimes their life savings, in securities.

"We in government know far too little about how the industry works. But, from what we have seen recently, it appears there may be a need for substantial changes in regulations and procedures.

The need for a full-scale Congressional inquiry, Williams said, was underscored by information developed during hearings last year on the bill (now law) which established insurance to cover failures of stock brokers.

"As a result of the broker-dealer insurance bill hearings, serious questions have arisen about whether the financial structure of the securities industry is adequate to the burdens it is carrying," he said.

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"Among the subjects which need further study is that of capital requirements and of the ability of partners in brokerage houses to withdraw their funds, a situation which in some cases has left firms teetering at the brink of insolvency.

"Other problems involve back office procedures, including a failure to utilize automation, and the question of whether the stock certificate in its traditional form is still a viable instrument. We also intend to inquire into the basic question as to whether "self-regulation" can cope with the problems facing the securities industry in the years to come.

Williams said he hopes the Subcommittee can begin public hearings sometime in March. He explained that the questionnaire dealing with "free credit balances" was decided on as an initial step, "because previous hearings indicated this was one of the most pressing problems, and we need additional information preparatory to holding hearings."

"Free credit balances" consist of funds derived from the sale of customers' stock, but held by brokerage firms until the customer decides to purchase other stock. Brokerage firms can, and do, use the money for their own purposes during the interim period. The New York Stock Exchange recently estimated that "free credit balances" held by its member firms total some \$4 billion.

The detailed, 21-question survey form, is being mailed to the 50 largest brokerage firms maintaining "free credit balances."

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